SISKIYOU COUNTY
ASSESSMENT PRACTICES SURVEY

MARCH 1997

CALIFORNIA STATE BOARD OF EQUALIZATION

FOREWORD

The adoption of Article XIII A (Proposition 13) by the voters in 1978 brought about significant changes in the way local government and public schools are funded. This Constitutional article drastically reduced property tax revenues by rolling back both the assessed value and the tax rate. In addition, it placed restrictions on the growth of assessed values and prevented local agencies from increasing the property tax rate. Although the property tax is a "local" tax, local governments have almost no control over the amount of property taxes to be collected or how the taxes are allocated among the county, cities, special districts, and schools.

The Article XIII A assessment requirements significantly altered the county assessor's property valuation program. Instead of appraising all properties periodically in accordance with a cyclical plan, as was done prior to Article XIII A, most kinds of real property are reappraised only if there has been a change in ownership, new construction, or a decline in value. The fair market value as of the date of change in ownership is the "base year value," and subsequent assessments cannot be increased by more than 2 percent annually. If on any subsequent lien date the adjusted base year value exceeds the current fair market value of the property, the market value must be enrolled as the taxable value for that year. If there is new construction subsequent to the change in ownership, the value of the newly constructed property is determined and becomes an addition to the original base year value. This separate base year value is also subject to the maximum 2 percent annual increase in assessed value. Due to legislative definitions of what constitutes a change in ownership or new construction for property tax purposes, many types of ownership transfers and several types of construction are excluded from reassessment, although the assessor must nevertheless update the property ownership and physical characteristics records.

What does this mean to the assessor's valuation program? Under a cyclical reappraisal system, the assessor plans the reappraisal workload years in advance. Under the Article XIII A system, the assessor can only estimate workloads. In addition to discovering all changes in ownership and new construction, the assessor's staff must also analyze each such event to determine whether it is or is not subject to reassessment, as required by a complex set of constitutional and statutory requirements. Now, property tax appraisers must be both skilled in appraisal techniques and more knowledgeable of property tax law.

The recession of the early 1990's created additional complications for California counties and assessors. As a result of a poor real estate market, a large number of properties declined in value below the Article XIII A maximum, new construction and changes in ownership slowed greatly, and the changes in ownership that have occurred result in decreases or only modest increases in assessed value. Although the slowdown in new construction and changes in ownership decreased that portion of the assessor's workload, the decline in value problem has created an enormous increase in the workload for reappraisals and assessment appeals.

Because of property value declines, the rate of property tax revenue increase that had been experienced in the past lessened. At the same time, state budget problems have resulted in substantially reduced property tax allocations and other budgetary support for most counties. This has made it extremely difficult for most counties to provide adequate funding for assessors' offices as well as for many other important programs.

All of the factors discussed above contribute to making the local property tax a more difficult tax to administer, and seemingly more difficult to fund. Yet, the property tax continues to be one of the most important sources of revenue for local government and public schools. Further, the property tax continues to be the most visible of all state and local taxes; visible to those who pay the property tax and to all levels of government that are dependent upon it. This visibility and the continued importance of the tax require that good assessment practices, efficient administration, and total conformity with the law be achieved by all agencies involved in the administration of the property tax.

Although the primary responsibility for local property tax assessment is properly a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties is to conduct periodic surveys of local assessment practices. The Board's Assessment Standards Division conducts these surveys.

Assessment practices surveys are required by Sections 15640 through 15646 of the Government Code. These statutes require that a survey is to include, at a minimum, a sampling of assessments of the local assessment roll followed by research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the valuation of taxable property; compliance with state law and regulations; the volume of assessing work and other duties to be done; and the assessor's needs for maps, records, equipment, supplies, and personnel. Due to budget and staffing limitations, our survey of Siskiyou County was done as a supplement to the previous survey of Siskiyou County, dated September 1990. This supplemental survey focuses on tax revenue-related problems and compliance with statutes and regulations. Administration, personnel, systems, equipment, mapping, exemptions, and fiscal needs are not reviewed or reported in this survey unless they relate directly to revenue or legal issues, or to taxpayer's rights or taxpayer equity.

Upon completion of a survey, the Board prepares a written report and transmits a copy to the county assessor. Within 30 days after receiving a copy, the assessor may file a written response to the Board's findings and recommendations. The survey report, including the assessor's response and the Board's comments regarding the response, constitutes the final survey report which is distributed to the County Board of Supervisors, Assessment Appeals Board and Grand Jury, the Governor, the Attorney General, the Senate and Assembly, and other concerned entities and persons.

The fieldwork for this report was conducted by Assessment Standards Division staff during June and July of 1996. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Carl A. Bontrager, the Siskiyou County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
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March 1997

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Siskiyou County

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I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization shall:

> ". . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the Board's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

> "The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process are carried out was developed after consultation with the county assessors by the staff of the Assessment Standards Division (ASD).

This report is the culmination of a review of the Siskiyou County Assessor's operation that began with ASD staff's appraisals of properties selected on the bases of assessment category and assessed value. The survey team analyzes the results of the assessment sampling, then examines current practices and procedures in key areas to see whether the most significant problems identified in the assessment sampling still exist in the assessor's operation. Finally, the survey team offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his program.

Overview of the Siskiyou County Assessment Roll

ASD's field appraisal team completed appraisals of 278 properties of all types assessed on the 1992-93 Siskiyou County local assessment roll. This roll contained a total of 49,474 assessments having a total taxable value of about $1.8 billion. (For a detailed explanation of ASD's assessment sampling program, see Appendix B at the end of this report.) The results of the sampling indicated the composition of the local roll by property type as follows:

Property Type	No. of Assessments In County	Enrolled Value
Residential	32,527	$ 887,734,414
Rural	9,064	442,191,829
Commercial-Industrial	3,850	376,161,336
All Other Properties	4,033	72,182,966
Totals	49,474	$1,778,270,545

Since the 1990-91 roll year, the total regular Section 601 roll (net of exemptions) in Siskiyou County has increased as follows:

Year	Total Value	Increase	Statewide Increase
1990-91	$1,818,725,000	-------	-------
1991-92	$1,889,656,000	3.9%	8.0%
1992-93	$1,981,025,000	4.8%	5.1%
1993-94	$2,085,033,000	5.3%	2.8%
1994-95	$2,185,503,000	4.8%	1.3%
1995-96	$2,283,092,000	4.5%	0.7%

Source: State Controller’s Annual Reports of Assessed Valuations of Counties

For fiscal year 1994-95 Siskiyou County prepared a roll containing 48,205 assessments on an approved budget of $915,241, which is approximately the same as the last few year's budgets. This budget funded 21 full time employees, which is almost a 10 percent reduction since the last Assessment Standards Division survey.

Regardless of the size of a county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Siskiyou County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Siskiyou County Assessor's Office by the Board's Assessment Standards Division.

This survey was conducted according to the method mandated by Section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

Revenue and Taxation Code Section 75.60 requires that the Board certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level of 95 percent or higher as determined by the Board through its assessment sampling program.

Based upon our current assessment sampling, the Board certified Siskiyou County as an eligible county. This indicates that its assessment program is substantially in compliance with the law. The recommendations and suggestions contained in this report are based on our analysis of data which indicates possible statutory violations, under- or overassessments, or unacceptable appraisal practices are occurring in specific areas.

B. SUMMARY

Since our last survey of the Siskiyou County Assessor's Office, the existing professionalism in property tax administration has been maintained. It is indeed a pleasure to work with an entire staff that accepts responsibility, completes their various duties, and serves the property taxpayers as cordially and efficiently as possible. Many improvements in the assessor's operation have been made and we commend the assessor, his managers, and his professional and clerical staffs for all of their new innovations.

It is noteworthy that Siskiyou County was the first county in the state to have 100 percent of its appraisal staff achieve an Advanced Appraisal Certificate. Training has not been neglected, even during a time of scarce training funds.

Our list of recommendations and suggestions for changes to the assessor's programs is not as lengthy as the list of positive improvements that he and his staff have already implemented.

As a result of our recommendation in the previous survey, a new program was installed to track declines in values (Proposition 8) of transfers of undivided ownership interests in a large recreational ranch. Tracking these individual interests is not an easy task (see partial interest transfers section under change in ownership and declining values section in this report). Current methods being used to assess this property are acceptable.

The assessor has requested a new exemption of low-valued property and, in response, the Siskiyou County Board of Supervisors adopted an enabling new resolution. However, there appears to be a need for clarification of this newly adopted resolution.

Some revisions should be made regarding supplemental assessments on possessory interest contract renewals. A discrepancy was noted involving a difference of opinion with the Board policy on whether a renewal of a month to month tenancy of a possessory interest requires an annual reassessment and supplemental assessment.

A new disaster relief ordinance update was initiated by the Siskiyou County Board of Supervisors in 1991, altering a previous disaster relief ordinance added in 1977. This prompted the assessor's staff to developed a new procedure to process disaster relief claims.

Some manufactured homes that are not affixed to a permanent foundation are being assessed as real property. They should be reclassified to personal property.

A list of privately owned water companies generated by California Health Services Department was provided by ASD to the assessor. We urged the assessor to review this list of water service companies for any possible missing enrollments.

Our prior survey indicated an unsupported use of a capitalization rate for valuing geothermal properties. The rate now used was developed via a method considered proper by our survey team.

The possessory interest program is well organized and effectively operated. There is an abundant flow of information and documents between all government agencies and the assessors' office. We make one suggestion to improve the system for scheduling reappraisals.

Exchange of information between the business property section and real property section is the key element in discovery, classification, and proper valuation of tenant and structural improvements. These two sections in the assessor's office do an outstanding job of communicating with each other.

A review of the California Land Conservation Act program indicates, that, while the overall handling of these properties is quite good, there is still some room for improvement in certain areas. Also, we recommend that a personal computer be utilized for the appraisal of CLCA properties. The current system of using the mainframe computer is inefficient and contributes to misinformation.

We found that the taxable government-owned properties (Section 11) portion of the assessment roll is well managed and is in full compliance with existing property tax law.

The assessor's business property assessment program is staffed with competent and dedicated personnel. Our recommendations for changes to this excellent program deal with topics such as: the use of replacement cost factors directly related to the type of property being appraised, proper signatures on property statements, and revising boat appraisal procedures.

A review of the tenant improvement, change in ownership, and mineral properties programs did not indicate any significant discrepancies or warrant any significant recommendations for change.

C. RECOMMENDATIONS AND SUGGESTIONS

Following is a summary of our formal recommendations, arrayed in the order in which they are discussed in this report with parenthetical references to their page locations. A listing of suggestions follows the recommendations.

RECOMMENDATIONS

RECOMMENDATION 1: Request a full-time assessment technician position to fill the gap between current and anticipated workload. (Page 6)

RECOMMENDATION 2: Revise the low-valued property exemption and apply it uniformly. (Page 7)

RECOMMENDATION 3: Revise the CLCA procedures as follows: (1) revalue all CLCA properties each year; (2) revise the status of ponds and reservoirs on CLCA properties; (3) utilize a personal computer for assessing CLCA properties; and (4) develop a formal written summary of CLCA practices and procedures. (Page 15)

RECOMMENDATION 4: Classify and enroll manufactured homes, except those placed on approved permanent foundations, as personal property. (Page 24)

RECOMMENDATION 5: When valuing machinery and equipment, use replacement cost factors that relate to the specific property being appraised. (Page 27)

RECOMMENDATION 6: Ensure that property statements are closely screened for proper signatures . Reject those that do not meet statutory requirements. (Page 27)

RECOMMENDATION 7: Revise boat appraisal procedures; appraise all boats at market value. (Page 28)

SUGGESTIONS

SUGGESTION 1: Implement a taxpayer self-reporting program for the assessment of low-valued new construction. (Page 13)

SUGGESTION 2: Maintain a "tickler" file listing the termination/renewal dates of all possessory interest contracts.. (Page 18)

SUGGESTION 3: Indicate which value guide or source was used to value manufactured homes and accessories. (Page 25)

II. ASSESSMENT PROCEDURES

A. Staffing

The real property workload report submitted for the last year in Siskiyou County included about 6,880 sales and other transfers and 3,000 reassessments resulting from new construction (discovered through building permits or other means). The assessor's office process more than 70 properties affected by misfortune or calamity. In addition, the staff processed slightly more than 115 property splits along with 22 new subdivisions lots. The real property section also performed many other tasks including assessment appeals and reviews properties which have experienced declines in value. It should be noted that these reported numbers are based on the 1994-95 assessment year.

The current staff budgeted to handle the real property consists of one assistant assessor/chief appraiser, six real property appraisers with step ranges of appraiser I, appraiser II, appraiser III and senior appraiser, along with eight supporting clerical positions. The business property section function is staffed with one auditor-appraiser and one appraiser technician. All of the property appraisers, audit-appraiser and support staff are located in the Yreka office.

With one exception, there appears to be some stability reached in the last few years as to the number of personnel and amount of funds needed to perform the task of completing a roll cycle. The one exception would be in the clerical staff area where there is a constant need for an additional position to handle the workload.

RECOMMENDATION 1: Request a full-time assessment technician position to fill the gap between current and anticipated workload.

With the advent of assessor's office updating and installing a new computer system coupled with the constant increase in the assessor's normal functions, this additional assessment technician position is needed.

B. Exemption of Low-Valued Property

Section 155.20 of the Revenue and Taxation Code permits a county board of supervisors to exempt from property tax all real and personal property with a value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine at what level of exemption the costs of processing assessments and collecting taxes exceeds the proceeds, and then establish the exemption level uniformly for all classes of property. The value to be exempted may not exceed $5,000 (Chapter 497 of the Statutes of 1995). It should be noted that the exemption for real property applies to the **base year value** (not the factored base year value), while the exemption for personal property applies to the **full value** (taxable value).

RECOMMENDATION 2: Revise the low-valued property exemption and apply it uniformly.

In 1993 the assessor requested authorization to exempt from taxation all boats and mining claims with a value less than $2,000 and all manufactured home accessories with a value less than $5,000. The request was based on an analysis of the 1993/94 assessment roll whereby the $2,000 limit would eliminate 54 percent of the boat assessments and 70 percent of the mining claim assessments. The $5,000 limit on manufactured home accessories would eliminate 87 percent of those assessments.

On December 14, 1993 the Siskiyou County Board of Supervisors adopted a resolution exempting from property taxation "any/or all" classes of property with a "full taxable value" of $2,000 or less. Subsequently, the assessor chose to apply the $2,000 low-valued property exemption only to boats and mining claims. This is his current practice, although he has now included possessory interest assessments in the $2,000 low-valued property exemption.

The Board's legal staff has concluded that the wording "all real property," as used in Section 155.20, means all such property rather than some such property. "All" means "the whole of." It is all-inclusive. The assessor cannot selectively target specific kinds of property.

We urge the assessor to work with the county counsel to clarify the wording of the low-valued property exemption resolution. Specifically, the wording".....any/or all property for those classes of property with a full taxable value of Two Thousand Dollars ($2,000.00) or less. . . ." should be reworded to read' . . . all real property with a base year value and personal property with a full value so low that . . . ." The board of supervisors still has the option of setting the exemption at a level that it is cost effective, provided that the level does not exceed $5,000. Once the ordinance has been corrected, the assessor should apply it uniformly to all properties.

C. Employee Training

Section 670 of the Revenue and Taxation Code provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board of Equalization. Section 671 further provides that all appraisers shall complete at least 12 or 24 hours of training each fiscal year in order to retain such a certificate. Twelve hours of training are necessary if the appraiser holds the advanced certificate, and 24 hours are required for those appraisers holding the basic appraiser certification.

There are eight appraisers in the Siskiyou County Assessor's Office who need to meet the requirements of Sections 670 and 671. All of the appraisal staff hold advanced certificates, so only the minimum hours of training are required of each appraiser.

As of June 30, 1995, all eight appraisers met the training requirements of Section 670 and 671. Only two appraisers did not have some excess hours to carry over to the current year. All of the classes taken in the current (1995/96) year have not been tabulated as of the date of our survey. The assessor is informed of the present training status of his staff and allocates the training budget accordingly. The assessor is to be commended for keeping his staff fully trained.

D. Disaster Relief

The Siskiyou County Board of Supervisors originally adopted a disaster relief ordinance in 1977 and has adopted amendments to it since then. The ordinance currently in use, Sections 8-6.01 through 8-6.04 (Chapter 6 of Title 8) of the Siskiyou County Code, was last updated and approved by the Board of Supervisors in 1991. It conforms to the current requirements of Section 170 of the Revenue and Taxation Code.

The assessor's staff has developed a very useful, and easy-to-use procedure for processing disaster relief claims. It is a multi-purpose guide for restoring property value, determining the correct amount of tax relief, and making roll corrections. This procedure conforms to the guidelines of Section 170 of the Revenue and Taxation Code.

Siskiyou County's current disaster relief application form is a very efficient and inclusive form that is easy for applicants to understand. This form includes a statement that all claimants must sign declaring that, to the best of their knowledge, the damage occurred through no fault of their own (owner/taxpayer).

The assessor's staff processes 10 to 20 claims a year. Although the assessor does not receive fire reports from all fire departments in the county, little or no fire damage information escapes the assessor. Two members of the assessor's staff are volunteer firemen and are cognizant of any fires in the county. The local newspaper reports all of the fire calls; moreover one of the assessor's staff is assigned to read the newspapers in search of fire reports and other disaster relief information.

Also, the building permit information that the assessor receives from the Building Department covers reconstruction of most fire damage.

We reviewed nine properties that had been damaged by fire. The assessor had noted the structural damage and lowered the taxable values of these properties. We found that the assessor's staff handled each case properly and processed midyear tax relief for the property owners.

Despite the staff cutbacks in recent years, they are doing an excellent job and should be commended for their diligence and expertise in appraising and assessing property damaged by misfortune and calamity.

II. REAL PROPERTY ASSESSMENT

A. THE APPRAISAL PROGRAM

1. Introduction

Under our present property tax system, county assessors' programs for assessing real property include the following elements:

(1) Revaluing those properties that have been subject to change in ownership;

(2) Valuing new construction;

(3) Annually revaluing properties subject to special assessment procedures, such as agricultural preserves (CLCA lands) and timberland production zones (TPZ); and,

(4) Valuing, as of the lien date, property that has experienced a decline in value ("Proposition 8" reviews, as authorized by Article XIII A, Section 2(b)).

The statistics derived from our analysis of ASD's 1992-93 roll sampling in Siskiyou County indicate the overall quality of the roll for that year. Of sampling of 278 roll entries, 61 were appraised by ASD staff at values different from the values determined by the assessor's appraisal staff (in 43 cases the ASD values were higher while in 18 cases the county values were higher). These sample item differences, expanded by statistical measurement to represent all property assessed on the 1992-93 local roll, indicate that 3,400 properties were underassessed by approximately $31.5 million, while 2,100 properties were overassessed by approximately $11.3 million.

Readers are advised that the projected underassessments and overassessments presented elsewhere in this report may not agree with the figures just presented. This could happen because one individual sample item may contain offsetting errors. The net "bottom line "differences can conceal the fact that there may have been two significant value differences in the appraisal, one positive and the other negative. We analyze line item differences rather than "bottom line" differences in order to isolate accurately the problems involved.

The Siskiyou County Assessor's appraisal program is structured around the assignment of a collection of contiguous mapbooks to each real property appraiser. An appraiser assigned to such a collection of mapbooks is responsible for the valuation of all properties noted on those mapbooks. The appraiser is also responsible for maintaining the corresponding appraisal records.

2. Change in Ownership

The Assessment Standards Division's (ASD) sampling of the 1992-93 Siskiyou County assessment roll included 38 items that were identified as properties that had experienced a change in ownership. The sampling data included only six real property transfer items where there were significant differences between ASD's appraised values and the county's assessed values. The assessor's values were higher than ASD staff values in four cases and lower in two cases.

One difference in value occurred because the assessor's staff made no change to the enrolled value of a property that changed ownership due to foreclosure, while the ASD appraiser determined that the value had dropped considerably. For another sample item, the assessor's staff revalued a shopping center that had transferred although part of the complex was encumbered with leases having remaining terms of 35 years or more. These leased premises were excluded from change in ownership and should not have been reappraised.

The reminder of the change in ownership differences fell into the category of differing opinions or appraisal judgments between county and ASD appraisers. Most of the differences were small and indicated no major problems. No pattern could be developed from these six samples.

Approximately 5,000 property transfer documents are received annually from the county recorder's office, and each must be analyzed to determine whether the transferred property or a portion of it qualifies for reappraisal. Roughly one-half of the 5,000 documents result in a "reappraisal event." Since the recorder's office uses the Preliminary Change of Ownership Report (PCOR), a sale questionnaire is sent only to those transferees who did not file the report. Penalties are applied if the transferee does not respond within the designated time period.

Partial Interest Transfers

In our previous survey (1990) we recommended that the assessor reappraise all transfers of undivided ownership interests and review these assessments for declines in value.

One recreational ranch in Siskiyou County has an ownership structure that is comprised of 2,500 undivided interests. A small portion of these interests change ownership each year. The assessor was not revaluing these partial interest transfers because the number of ownership changes in any one year did not exceed 5 percent of the value of the total property as required in Section 65.1 of the Revenue and Taxation Code. However, a second part of that same Revenue and Taxation Code Section makes partial interest transfers a reappraisable occurrence if the market value of the cumulative transfers in any one assessment year is $10,000 or more. Under this scenario the sale of two or three undivided interests in any one year makes it necessary to revalue and track the ownership interests of all transferred in that year.

The assessor concurred with that recommendation and has implemented the procedures that are necessary to track and revalue all such changes in ownership interests. This has been a tedious and time-consuming task, and the assessor is to be commended for his efforts.

Legal Entity Ownership Program (LEOP)

Section 64(c) of the Revenue and Taxation Code provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity. The property is, therefore, subject to reappraisal as of the date of the change in control. Such changes in control are not recorded in the manner of other transfers and are not always obvious to an assessor.

The assessor's annual business property statement is one source of discovery. A legal entity that must file the annual statement must respond to a question in the general information section concerning "Change in Control." The Siskiyou County Assessor's auditor-appraisers generally check for a change in control during an audit.

A list provided by the Assessment Standards Division's LEOP Unit is another source of discovery for an assessor. LEOP learns of these unrecorded transactions that occur by stock acquisition when the legal entity responds to questions on its corporate and partnership tax returns. The information is forwarded to the LEOP Unit by the California Franchise Tax Board.

Upon receiving this preliminary information, the LEOP Unit sends its own questionnaire to the entity asking for specific details as to the date, the nature of the transfer, and the parcels involved. The information, when sorted, is then sent to the appropriate counties. Because some of the acquiring entities cannot furnish specific information, the assessors are advised to thoroughly check the parcels listed to determine with certainty which are subject to reappraisal.

Since January of 1982, the LEOP Unit has notified the Siskiyou County Assessor of changes in control of 44 legal entities that own property in Siskiyou County. ASD reviewed the appraisal records of property owned by 10 of the legal entities. These were the most recent changes in control on the list.

In one case, the assessor's staff recognized that a change in control had taken place and made note of it on the back of the appraisal record. However, since the change in control did not, in the assessor's opinion, warrant a change in value, no entry was made on the top sheet of the appraisal record. This led to a confusing picture as to the proper base year. An entry on the top sheet would have made the new base year obvious to any party who had occasion to review this appraisal. A note to the appraisal staff reemphasizing the importance of adequate documentation should suffice.

A review of the other legal entity changes in control did not suggest any discrepancies. Overall, this portion of the transfer program appears to be working in a satisfactory manner.

3. New Construction

a. Sampling Results

ASD's sampling of the 1992-93 Siskiyou County Assessment Roll included 81 sample properties that were identified as new construction. There were only seven sample items that had substantial value differences attributable to new construction. In all seven cases, the ASD appraised values were higher than the county enrolled values. Statistically expanded to represent the entire roll, these seven sample items indicate that 390 assessments may have been underassessed by $4.8 million.

In addition to the new construction samples, there were an additional 87 samples identified as base year properties. Within this category there were two cases where the sample items had escaped new construction. Statistically expansion indicates that an additional 465 new construction properties have escaped assessments with a loss in full cash value of $2 million dollars.

b. Escaped New Construction

Items of new construction that escaped assessment consisted of a garage, storage building, enclosed patio, pole barn, shed, and bedroom. The assessor's staff acted on the findings of the ASD appraisals and enrolled all the escaping property. The main reason for the escaped assessments on the sample items was that new construction was undertaken without a building permit having been issued to the property owner.

It is very difficult for county assessors to become aware of items of new construction when no permit is taken out by a property owner. The various ways the county assessor can discover that new construction has occurred without a building permit are: (1) to instruct the appraisers to be alert for any signs of unreported new construction; (2) to field review selected properties following ownership changes; (3) to include a periodic questionnaire in regularly scheduled mailings; and (4) to canvass neighborhoods to review specific areas to discover assessable new construction built without permits. We note that the Siskiyou County Assessor has implemented the first two procedures.

c. New Construction Valuation

The Siskiyou County Assessor's staff is doing a commendable job in valuing new construction. The staff use the market approach to value when there is sufficient data. When the market data is not available, the staff then value the new construction by the replacement cost approach, utilizing the State Board of Equalization replacement cost manuals and, in some situations, the Marshall Valuation service. For small miscellaneous improvements the staff will normally use local costs when they are available.

d. <u>Building Permits</u>

Siskiyou County has 10 building permit-issuing agencies: the County of Siskiyou and the cities of Dorris, Dunsmuir, Etna, Fort Jones, Montague, Mt. Shasta, Tulelake, Weed, and Yreka. The cities of Etna, Fort Jones, Montague, and Tulelake contract with Siskiyou County to issue permits for construction work in their jurisdictions. The County Health Department has the responsibility of issuing permits for wells and waste disposals systems. Combined, these agencies issue an annual total of about 1,700 permits.

Building permits are received in the assessor's office from each issuing agency on a monthly basis. The permits are then routed to an assessment clerk who then verifies the parcel number and the owner's name and address. A 3x5-inch file card is then created with the following information: (1) assessor parcel number; (2) issuing agency identification code; (3) permit number; (4) permit date; (5) property address; (6) document code; and (7) type of work to be performed. An assessment clerk then routes the 3x5-inch file cards to a field appraiser for review and valuation.

The individual appraisers are responsible for the review and valuation of all permit work in their geographical areas. All permit work is field inspected by the field appraisers. When the permit work is complete, the appraiser will note in the appraisal folder the permit number, date, and action taken.

Presently the Siskiyou County Assessor does not have a self-reporting new construction program.

SUGGESTION 1: <u>Implement a taxpayer self-reporting program for the assessment of low-valued new construction</u>.

Siskiyou County appraisers inspect all assessable new construction performed under building permits. We suggest that the assessor expand on this program and initiate a program for taxpayer self-reporting of minor items of new construction.

This could be accomplished by designing a questionnaire for property owners to report detailed new construction information over a broad spectrum of new residential construction, alterations, and additions.

The Siskiyou County Building Department has recently automated its permit issuing process and now allows the assessor full access to its on-line data base. As a result of this newly automated system, the assessor now has computer access to all permits that are generated by the County Building Department. Appraisers are now able to view the on-line data base and determine the current status of new construction in the County of Siskiyou.

4. Declining Values

a. Overview

Section 51 of the Revenue and Taxation Code requires the assessor to reappraise a property whenever that property's current market value declines for any reason below its factored base year value on the lien date. The lower value must be enrolled as the taxable value for the year of the decline as defined in Section 110. A market value that is less than the factored base year value is referred to as a "Proposition 8" (Prop 8) value in recognition of its ballot title. If the property's market value subsequently increases above the factored base year value on the lien date, then the factored base year value resumes as the taxable value.

Our interview with the assessor's staff indicated that, generally, property values in Siskiyou County have not declined in recent years, as has been the case in many other counties. A few areas have shown some decline, but overall there has not been a countywide decrease in value.

The assessor relies on various methods to identify possible declines in value, including both taxpayer complaints and the appraiser's continual review of their geographical areas. The assessor and his staff have done a commendable job of monitoring property values within the county.

In instances where there has been a loss in value, a property's declined value is enrolled as its taxable value. Then it is assigned a code in the data base system so that the annual inflation factor adjustment will not be made. Each appraisal record is posted with code "H" so that it can be flagged for annual review. Each year a current market value estimate is enrolled until it is larger than the factored base year value. At that time, the factored base year value is enrolled as the taxable value. If an appraiser wishes to change the reduced value on an appraisal, he or she must make an appraisal of that property and enter the lower value in the correct roll column on the appraisal record.

In 1983 the assessor's office developed a computer program that listed all parcels with Prop 8 values and base year value factors. The appraisal staff uses this listing in their annual review. According to the assessor's staff, Siskiyou County had the following number of properties under Prop 8 control for the specific roll years:

Total parcels in Siskiyou County	54,000
Taxable parcels in Siskiyou County	44,710

Roll Year	No. of Parcels
1986-87	400
1987-88	865
1988-89	2,700
1990-91	3,700

1991-92	3,866
1992-93	3,410
1993-94	3,252
1994-95	2,970
1996-96	2,887
1996-97	2,812

We reviewed several areas in Siskiyou County and found that for the most part property values in the county have steadily increased from mid-1988 through 1996. We did find one area where values have declined, and the assessor's staff had reduced the assessed values.

A large number of Prop 8 properties located in the Lake Shastina subdivision accounted for approximately 75 percent of Siskiyou County's Prop 8 values.

b. Lake Shastina

Lake Shastina is a planned unit development with approximately 4,052 parcels. This subdivision was in development in 1968-72 and currently has 15-17 percent fully improved sites.

Houses and vacant sites in this development began to resell in the year 1988 and continued on through 1994 at amounts below their original purchase price. The assessor's staff did an excellent job in reviewing the parcels that had declining values in this development. When it was determined that values within this development had declined and reduction in value for properties were warranted, the staff reduced the assessed value of all properties that qualified.

B. SPECIAL PROPERTIES

1. California Land Conservation Act (CLCA) Properties

Siskiyou County has approximately 381,981 acres of land currently under CLCA contract. The number of contracts has steadily grown since the inception of the act in 1965. There are 1,291 CLCA contracts which currently involve approximately 2,313 parcels.

The Siskiyou County CLCA program is primarily the responsibility of one appraiser who is well informed on how to process these properties, under existing policy, from one year to the next. ASD's review of the CLCA program indicates that while the overall handling of these properties is quite good, there is still some room for improvement.

RECOMMENDATION 3: Revise the CLCA procedures as follows: (1) revalue all CLCA properties each year; (2) revise the status of ponds and reservoirs on CLCA properties; (3) utilize a personal computer for assessing CLCA properties; and (4) develop a formal written summary of CLCA practices and procedures.

Revalue All CLCA Properties On An Annual Basis

Currently, if anything other than the Board-announced interest (yield) component changes in the CLCA valuation formula, the assessor's staff does not revalue all these properties in a given year. Whenever rental and production surveys results in the application of new price and production figures for CLCA properties, in addition to any change in the yield component, some properties do not get revalued for as long as two more years following the lien date that these changes occurred.

Section 423 of the Revenue and Taxation Code requires the assessor to value lands under CLCA contracts at the lowest of capitalized earning ability using a capitalization rate which includes a Board-announced interest (yield) component, current fair market value, or base year value adjusted by the inflation factor. CLCA lands require review on an annual basis primarily because the CLCA yield component changes annually. In addition, any other change in the income approach formula e.g., a change in price and production, should be annually reflected in the valuation process for all CLCA properties.

Revise The Status Of Ponds And Reservoirs On CLCA Properties

Many CLCA properties in Siskiyou County have water storage ponds or reservoirs. These ponds are sometimes utilized for irrigation purposes for the property on which they are located and or adjacent properties as well. It has been the practice of the county assessor to assign a zero (0) value to these ponds.

ASD feels that this is an incorrect method which does not conform to Revenue and Taxation Code Section 423. If the pond is classified as an improvement, it must be assigned a base year value which must be annually indexed by the inflation index required by Article XIII A of the Constitution; if the pond is classified as land, it should be assigned an economic rent per-acre value based on its being an integral part of the farming operation, and this income should be capitalized into the Section 423 CLCA value.

ASD urges the assessor to revise his method of allocating value for irrigation ponds and reservoirs on CLCA lands.

Utilize A Personal Computer For Assessing CLCA Properties

Currently, the assessor utilizes an interdepartmental county mainframe computer system to calculate values for CLCA properties. However, whenever there is a need to input new economic rents, based on a change in crop prices and production, the assessor's staff must select a fixed rent from a predetermined table to value a property. The only way to update the mainframe software with new economic rents is to request a major rewrite, which is rarely (or not at all) approved by the Siskiyou County Data Processing Department. The result is that some CLCA properties are valued, sometimes for years, at an improper rent. In addition, an improper use code must be assigned to these properties in order to adjust the rent, which only leads to further confusion and misinformation.

ASD recommends that a personal computer be utilized for the appraisal of CLCA properties. With the use of a personal computer and a commercial spreadsheet program, the assessor's office should easily be able to input up-to-date rents and calculate correct values every year, eliminating any dependency on another department. The time (and efficiency) saved in calculating proper CLCA values with a personal computer should more than justify the cost of obtaining the computer and software. More importantly, each CLCA property could be properly reappraised every year, as required by law.

Develop A Formal Written Summary Of CLCA Practices And Procedures

Although the present rural appraiser is personally familiar with many ranches and farms in Siskiyou County, in the future whoever is assigned to the CLCA program may not possess this first-hand knowledge. Accordingly, uniform written guidelines will be required to do the job, whereas now the rural appraiser maintains much of this data in an informal manner.

In the best interests of program continuity and maintaining high assessment standards, we suggest that the assessor develop a written program description, complete with specific procedures (formal procedures manual). This would enable any competent appraiser to take over the CLCA program upon any reassignment of the incumbent rural appraiser, with a minimum of prior "on-the-job" training.

2. Possessory Interests

Taxable possessory interests are private property rights in publicly owned real property. The term "possessory interest" (PI) as it is used for property tax purposes in California includes either the possession or the right to possession of real estate when fee title is held by a tax exempt public agency.

Siskiyou County has numerous types of properties that are to be valued as possessory interests. The assessor has assigned various classifications to these property rights and maintains files based on the following headings; grazing, campgrounds, government housing, airport hangars, resorts, and fairground concessionaires.

Capitalization Rates

In prior surveys of Siskiyou County (1984 and 1990), we have noted that the assessor is using a standard built-up yield rate as a component of the capitalization rate in some possessory interest appraisals. We also previously noted that it is improper to apply a standardized rate to the various different property types, (residential, commercial, and rural). The preferred capitalization rate for possessory interest valuations is made up of a current market-derived yield rate that is applicable to the property type being appraised (rural, commercial, etc.) plus a component for property taxes.

Although the assessor's use of the standardized rate does not appear as often as in the past, it is still being applied to some properties. We encourage the assessor to recognize market influences and the different risks involved, research the local market, and if possible, derive the appropriate yield rate to be used for the various diversified possessory interests.

Terms of Possession

Possessory interests are subject to revaluation upon creation, renewal, sublease, or assignment of a lease, or when any other change in ownership occurs. Our position is that PI's with month to month agreements are to be valued using an expected term of possession based upon industry practice and/or historical data. In our 1990 survey we suggested that the assessor review all month to month tenancy PI's, such as aircraft tie downs and grazing leases, and then use the expected term of possession to arrive at market value. Our current review found that good procedures are in place to estimate terms of possession and to handle month to month tenancy.

Lease Data

Information is submitted to the assessor via the various government agency reports, analyzed, refined, and assigned an appropriate term of possession based on the technical data included in the agency reports. Our review of the possessory interest appraisal files revealed that a copy of the lease is not included in most of the county PI records. However, a list of the basic PI data which includes all of the terms of the contract, plus the main basic leases that are used, is available in the assessor's files.

SUGGESTION 2: Maintain a "tickler" file listing the termination/renewal dates of all possessory interest contracts.

We urge the assessor to maintain a "tickler" file listing the termination/renewal dates of all PI contracts. This file is needed in order to properly schedule PI reappraisals.

3. Timberland Production Zone (TPZ) Properties

Siskiyou County has approximately 570,564 acres (1,628 parcels) of TPZ properties. One appraiser, who is well informed on how to value these properties, is responsible for the entire TPZ program. ASD's review of the TPZ program reveals that while the management of these properties is good, one issue still needs to be resolved.

In our previous survey, published in 1990, we recommended that the county review timberland site classifications. This has not yet been accomplished. ASD's sample of the 1992-93 assessment roll contained 12 TPZ properties and we found only one to be improperly classified.

The county's current classifications were derived from timber company data, and the classifications have never been confirmed by the assessor's staff. Workload considerations preclude the review of all timberland parcels. However, we suggest that the assessor make an in-depth analysis of the classification problem and formulate a plan for the review of timberland site classifications in those areas where a review would be cost effective.

4. Taxable Government-Owned Properties

Article XIII A, Section 3 and 11 of the Constitution of the State of California exempt from taxation any property owned by local governments within their own boundaries. However, if a local government agency owns land and improvements that are located outside the agency's boundaries, these properties may be taxed if they were subject to taxation at the time of acquisition. These properties are commonly referred to as Section 11 properties because they must be assessed in accordance with procedures specified by Section 11 of Article XIII A of the California Constitution.

Any government-owned land that is located outside of its agency's boundaries must be valued at the lowest of (1) the 1967 assessed value multiplied by a factor annually supplied by the State Board of Equalization, (2) its adjusted base year value, or (3) an assessment based on current fair market value. In general, neither current market value nor the factored 1967 assessed value plays a significant role since, in most cases, they far exceed the adjusted base year value.

Improvements, on the other hand, may not be valued by use of the factor, but if taxable when acquired, will be valued at their cash value as defined by Article XIII A of the California Constitution. New construction of improvements that replace original improvements must be taxed at the lowest of (1) current full cash value, (2) full cash value as defined by Article XIII A of the California Constitution, or, (3) the highest full value ever used for taxation of any improvements that have been replaced. By contrast, any new improvements built on Section 11 land after acquisition by a government agency are exempt from property taxation.

Our review of taxable government owned properties in Siskiyou County revealed that the current program is well managed and is in full compliance with existing property tax law.

5. Mineral Properties

Property Tax Rule 469 offers an in depth procedural analysis for valuing mineral producing properties. The provisions of this rule apply to the valuation of the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property associated with these rights.

There are approximately 33 operational mining and quarrying sites located in Siskiyou County. All of the sites are owner-operator in nature and represent a sizable taxable value on the assessment roll. Some of the sites are currently active, while a considerable number are inactive. Some of the aggregate plants are activated on a need basis, operated for a few years, closed down when local demand diminishes, and reopened when local demand resumes. Most of the demand for aggregates is created when the road department begins re-surfacing highways and county roads at a particular location within the county.

The assessor does a commendable job in keeping abreast with this alternating closure and opening of these various plants by utilizing visitation and correspondence procedures with each of the known operating sites. The county is doing an excellent job in assessing these properties.

6. Water Companies

The three types of water systems are: private, privately owned public utilities, and mutual. The bulk of water systems' values reside in the corporate utility company properties.

Publicly-owned water systems located outside the boundaries of the owner are also taxable to the extent that they consist of real property that was taxable at the date of acquisition (Article XIII A, Section 11 of the California Constitution).

Private Water Companies Regulated by the California Public Utilities Commission (CPUC)

Siskiyou County has three privately owned water companies that are subject to regulation by CPUC. Private water companies are privately owned entities in business to earn a profit from the sale of water.

Being subject to regulation by the CPUC, they must submit annual financial reports on their operations to the CPUC. The CPUC regulates the rates charged by these companies, with profits being limited to a fair return on the companies' outstanding investment in their net assets, i.e., the historical cost less accrued depreciation (HCLD).

Because profit is tied to a declining book investment, the market value of the water company may also have declined. As a result, the current market value of the company may be less than its factored based year value, making it necessary to annually determine the company's taxable value on the lien date. We note that in Siskiyou County there was no sales analysis data in the appraisal folders with which to make a comparison to the current market value.

We contacted the CPUC and verified the list containing the names of three private water companies regulated by the CPUC in Siskiyou County. We reviewed the appraisal records and found that one regulated company has no separate assessment since it is merely a ditch system running between Oregon and California and the value of the system is included in the surrounding land value. We found that neither of the other two companies had submitted current copies of their CPUC annual reports to the assessor's office. Without the information contained in this document, a regulated private water company may not be properly appraised for assessment purposes.

When available, reviewing the regulated companies CPUC annual report will help to determine whether the plant investments are static and are losing value as book depreciation reduces the return allowed by the CPUC.

Mutual Water Companies

Mutual water companies are associations organized to deliver water solely to the members at cost and not for profit of the enterprise. Ownership is usually held as shares of stock that are appurtenant to the land served or held by contract with the owners of the land served. Usually, this interest also transfers with the change in ownership of the parcels it serves.

Caution must be taken when assessing mutual water companies, because in certain instances where the shares are appurtenant to the land, the value of the water company system is typically reflected in the value of the land that it serves and to which the shares are attached. If the assessor does not recognize this fact and makes an appraisal of the water system separately while appraising the land using the sales comparison approach, a double assessment will result.

We confirmed that processing of the mutual water companies was proper; however, some appraisal files are missing important documentation. It is advisable that the assessor's staff obtain the following information from each mutual water company:

(1) Articles of incorporation with amendments;

(2) By-laws with amendments;

(3) Proof of ownership in the company's name of the land and improvements;

(4) Lists of lands, improvements, and water distribution systems owned by each mutual water company, showing location and identity of each item; and

(5) A listing of all assessor's parcels served by each mutual water company.

Private Water Companies Not Regulated by the CPUC

Unregulated water companies are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated for gain or profit.

There are 99 locations listed on the list of private water systems under state supervision by the State of California, Health Services Dept., Division of Drinking Water and Environmental Management in Siskiyou County. Some companies on the list are regulated companies, some are municipally owned, and some are mutual companies; however, a majority are privately owned.

The assessor should review these water companies to determine whether they should be assessed.

7. Geothermal Properties

As was reported in our previous survey, Siskiyou County's geothermal potential is still being evaluated. Exploration has been underway for a number of years in the eastern portion of the county, yet, there presently has not been any production of geothermal power.

Several drilling companies are exploring on government owned land, capping off any potential productive wells until a steam field of sufficient generating capacity is established. The exploration companies are currently in the permitting stage with actual production predicted to be two years away, i.e., 1998.

On lien date 1996 Siskiyou County was still in the exploration stage, and, since these properties are located on public lands, the only right to be valued at this time is a possessory interest value in the exploration rights. Valuation of the geothermal field and the geothermal-producing equipment and improvements will come at a later date.

Geothermal-producing properties of this nature are very complex and among the most difficult types of properties to appraise. Of course they are also subject to the value limitations of Article XIII A. Usually the income approach to value is the preferred method to value, due to the questionable reliability involved in the cost approach and the comparable sales approach.

The income from these exploratory leases is currently being capitalized into perpetuity by the assessor, even though the original terms of the contract state that the primary lease term shall be 10 years. When estimating the term of possession; the controlling factor is not necessarily the provisions as set forth in the contract, but rather the expected term of possession, as determined by actual industry practices. In determining the reasonable term of possession, the assessor shall be guided by the intent of the public owner and the assessee, as indicated by such evidence as, similar contracts and usage, historical data on comparable sites, and the diligence of the assessee.

The contract specifies extensions of up to two 40-year periods. In this case, although these are exploratory leases for a basic 10-year term, historical evidence has shown that the assessee, as a "diligent operator," will automatically extend the lease term. However, as in any industry, each property must be reviewed individually and valued according to its particular contract provisions and history.

Our prior survey revealed that when valuing geothermal exploration leases, the Siskiyou County Assessor capitalized the contract rents paid to the government agency, using the Land Conservation Act yield rate as a basis for the geothermal capitalization rate. We had made the recommendation that the assessor use a proper market derived geothermal capitalization rate. Since the prior survey, the assessor's staff has corrected this procedure and now derives a rate from similar properties and sources.

We commend the assessor in the valuation of geothermal properties and reiterate that, whenever possible, the value should be computed by using a market derived rate and a reasonably anticipated term of possession.

8. Tenant Improvements

Tenant improvements (also commonly referred to as leasehold improvements) are not specifically defined in property tax law. Generally, they are interior amenities that are installed as additions to the building shell by the lessee (tenant). Actual ownership of such improvements rests with the owner of the land (landlord) unless there is an agreement to the contrary or if the owner requires removal of the improvements (Civil Code Section 1013).

Section 405 of the Revenue and Taxation Code provides that the assessor shall assess taxable property to the person who owns, possesses, claims, or controls the property on the lien date. Unless ownership of a tenant improvement is clearly known, the assessor may elect to assess the tenant improvement to the tenant on the basis of possession or presumed ownership, or the assessor may elect to assess the landlord on the assumption that the landlord is the ultimate owner of the property.

In Siskiyou County all tenant improvement assessments are maintained in a well organized separate file which is easily formatted for updating and review. If there is a question of ownership of the tenant improvement, the assessor's staff always assess the current tenant. A systematic check is made whenever it is discovered that a new tenant has moved into a previously occupied space, followed by a field inspection by the real property appraiser.

Should a lessee vacate the premises and abandon the tenant improvements, the appraiser must determine whether the abandoned improvements would bring additional rental income from a new tenant. In this situation, the Siskiyou County Assessor's Office has a policy that if the improvements have value the value reverts to the landlord.

In most cases where taxable new construction has occurred as a result of newly installed tenant improvements, the assessor has used the cost approach to value these improvements. We concur with the use of only one approach to value since the number of tenant improvements in this county is very small, but, we also urge the assessor to use the income approach whenever it is possible.

9. Manufactured Homes

a. Overview

Under current law, a manufactured home is subject to local property taxation either because it was first sold on or after July 1, 1980, or because the owner voluntarily requested conversion of a pre-1980 manufactured home from vehicle license fee to local property tax. Sections 5800 through 5842 of the Revenue and Taxation Code prescribe how manufactured homes must be valued and assessed. Manufactured homes have been taxable on local county tax rolls since July 1, 1980 and are governed by provisions in both the Health and Safety Code and Vehicle Code.

Siskiyou County's 1995-96 property tax roll contained 930 manufactured homes with a total assessed value of $12,205,099. Some of the manufactured homes are located in rental parks in the county, with the rest being on fee land in rural areas.

The county has a resolution exempting low-valued property and manufactured home accessories having a base year value or full value of less than $5,000. This low-valued property exemption resolution was passed by the county board of supervisors on December 14, 1993.

We note that the assessor does not have a written procedural guide for valuing the manufactured homes. With almost 1,000 properties on the roll, we urge the assessor to adopt a formal written policy.

Valuations are made via the replacement cost approach using current issues of the NADA guide, Board of Equalization replacement cost factors (AH 531.35), Marshall Stevens Valuation Guide, and dealer reports of sale. Notification is received from the Department of Housing and Community Development (HCD) of new sales, resales, changes of situs, and voluntary conversions of manufactured homes from vehicle license fee to local property taxation.

b. Classified as Personal Property

Generally, the assessor's staff is very prompt in assessing manufactured homes and their accessories. However, the assessor incorrectly enrolls manufactured homes as real property improvements. They should be classified and assessed as personal property in instances where they are not affixed to a permanent foundations and when not in compliance with Section 18551 of the Health and Safety Code (See Letter to Assessors (LTA) 92/57, August 31, 1992).

When improperly enrolled as real property, the owner of the manufactured home will pay taxes that should not have been levied if the manufactured home is located within a tax rate area that has a special assessment.

RECOMMENDATION 4: Classify and enroll manufactured homes, except those placed on approved permanent foundations, as personal property.

Classification of manufactured home as personal property rather than real property can have important consequences. For instance, a manufacture home classified as personal property is exempt from property taxation if it is:

(1) Held for sale or lease by a dealer;

(2) Owned by military personnel on active duty in California who are legal residents of another state;

(3) Owned by a bank, insurance company, or financial corporation; or

(4) Owned by a government agency but used by a person or legal entity, because the legislature has not authorized assessment of possessory interests in manufactured homes classified as personal property.

We note that even though manufactured homes are incorrectly classified as improvements, the Siskiyou County Assessor has allowed applicable exemptions when appropriate. However, we recommend that the assessor revise the current manufactured home program so that manufactured homes are correctly classified as personal property.

SUGGESTION 3: Indicate which value guide or source was used to value manufactured home and accessories.

In our survey review, we examined 42 manufactured homes building records in four separate manufactured home locations. We found no discrepancies in the techniques used to value the manufactured homes; however, the building records did not indicate any information as to which value/reference guides were used to value these manufactured homes.

The building records for the manufactured homes should include the value guide, date, or source used in the valuation of the manufactured homes and/or accessories. A reference to this document will expedite future handling and will present a better audit trail.

IV. BUSINESS PROPERTY ASSESSMENT

A. INTRODUCTION

The business property division of the Siskiyou County Assessor's Office is responsible for annually processing more than 3,400 property statements and for appraising 788 boats and 125 aircraft. The business property division must also appraise a variety of commercial, industrial, and agricultural properties. This assessment task is accomplished by one auditor-appraiser, one appraisal technician-assessment clerk, and one assessment clerk. This level of staffing is a decrease of two auditor-appraisers from our previous survey completed during September 1990.

The Assessment Standards Division's (ASD) sampling of the 1992-93 Siskiyou county local assessment roll included 58 secured and unsecured business property assessments. In 33 of the sampling items, the county values differed from the value estimates made by ASD's staff. Specifically, the county's assessed values exceeded the ASD staff's appraised values in the cases of 8 sampled items, while in 25 cases the ASD staff's appraised values were higher.

Value differences noted in 17 of the sampled items were caused by problems with full value factors. This is the major cause of differences between the ASD and county appraised values for business properties in nearly every county sampled by ASD. Full value factors are produced by combining percent good factors (reflecting economic lives) and replacement cost indices of properties of similar type and age. The ASD appraiser relied almost exclusively on the indices contained in Assessors' Handbook Section 581, while the Siskiyou County appraisers used modified averages of these indices.

B. PROPERTY STATEMENTS

Business property assessments are based upon data submitted by taxpayers on the annual business property statements. We found in our recent review of Siskiyou County assessor's business property section that there is good control over the receiving of and safeguarding of business property statements; however, the business property section incorrectly uses the Board's equipment index factors when calculating value based upon reported cost.

1. Equipment Valuation

The Siskiyou County assessor's office uses the suggested tables from Assessors' Handbook Section 581, "Equipment Index Factors," to appraise machinery and equipment, but not in the manner intended. Table II-I, "Commercial Equipment Index Factors," contains schedules for 12 classes of commercial establishments or types of equipment. The county uses the arithmetic average of 4 of the 12 schedules to compute the replacement cost new (index factor items acquisition cost) rather than using the schedule that is designed for the particular property being appraised. The procedure does not follow established normal factoring steps in making these calculations.

RECOMMENDATION 5: When valuing machinery and equipment, use replacement cost factors that relate to the specific property being appraised.

The California Supreme Court ruled in Bret Harte Inn, Inc. v. San Francisco, 16 Cal. 3d 14, that the cost factors must be adjusted by the depreciation factors in a manner reasonably calculated to achieve full value with respect to the particular property being appraised. Since the computed taxable value is based in part on the replacement cost factor it should reflect, as nearly as possible, the particular property being appraised.

It is important that the audit-appraisal staff carefully select the appropriate equipment index factor. Although overall totals may show only a small "bottom line" difference, the accuracy of individual appraisals will be materially distorted by averaging. Averaging factors sacrifices accuracy for convenience, results in inequitable treatment of taxpayers, and we strongly recommend against it.

2. Authorized Signatures

Property Tax Rule 172 requires that the property statements and mineral production report forms by signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization of the agency or employee to sign the statement shall, according to Property Tax Rule 172, be filed with the assessor.

In the case of corporate assessees, the rule states further that property statements and mineral production reports shall be signed by an officer or by an employee or agent whom the board of directors has designated in writing, unless signed by a member of the bar, certified public accountant, or duly appointed fiduciary.

Property Tax Rule 172(d) also states:

> "Neither the assessor nor the Board shall knowingly accept any signed property statement . . . that is not executed in accordance with the requirements of this section."

While reviewing current and previous years' property statements, we found property statements signed by persons without the apparent authority to sign them. These signatures were not supported by letters authorizing the signature used.

RECOMMENDATION 6: Ensure that property statements are closely screened for proper signatures. Reject those that do not meet statutory requirements.

By ensuring property statements are properly signed or a written authorization filed, the assessor will be in full compliance with property tax laws. Likewise, it will also increase the accountability of whoever signs and files the annual property statement. The corporate assessee will realize that the filing employee or agent is being charged by the corporation with the important duty of accurately and fully reporting all business property to the assessor. The written authorization calls attention to the fact that the corporate assessee is liable for any consequences of the employee's or agent's errors in reporting.

To implement this recommendation, the business property section should consider maintaining a central file of and perhaps an alphabetical table of contents of written authorizations.

C. VESSELS

The Siskiyou County Assessor's business property staff assessed 788 boats on the 1996-1997 tax roll. Their main method of discovery was the Department of Motor Vehicles (DMV) reports.

ASD's assessment sampling of the Siskiyou County 1992-93 assessment roll included eight pleasure boats. Only one of those samples did not agree with the county value. However, the assessor's business property staff utilized significantly different procedures to enroll the pleasure boat values for the 1992-93 roll year than for subsequent roll years. For the 1992-93 assessment roll year, the business property staff reappraised 1,500 boats and, according to assessor's records, "673 changes were made with a net roll reduction of $284,940." But for assessment roll years 1995-96 and 1996-97, the business property staff selected a sampling of 50 boats each year, or approximately 5 percent of the county's enrolled boats. Each of these sample boats were then reappraised. Only those reappraised market values that differed by $1,000 or more from the previous year's roll value were changed. The remaining boats (approximately 95 percent of the boats) had the same value as in the previous year.

This procedure resulted in 35 of the 50 boats the county sampled and reappraised to be assessed either higher or lower than indicated market value determined by the county assessor for the 1996-97 assessment year. Likewise, the remaining majority of boats were not examined for potential value differences.

RECOMMENDATION 7: Revise boat appraisal procedures; appraise all boats at market value.

ASD staff have consistently recommended that boats should be categorized so that market data can be analyzed and used in the appropriate categories. Such categories have generally included "new or used," "sailboat," "inboard," "outboard," and "inboard/outboard." Market data can be analyzed so that applicable percentages can be determined for each category. The "category" method more closely approximates market value than an "across the board" decreases or not changing the previous year's enrolled value. A second acceptable method is to annually value each boat using one or more published boat valuation guides. This method, however, requires much more time than the "category" approach.

Regardless of which method is selected, we recommend that the audit-appraisal staff in the Siskiyou County Assessor's Office review the procedure presently used to value boats.

SISKIYOU COUNTY ECONOMIC PROFILE

Siskiyou County, incorporated in 1852, is located 660 miles north of Los Angeles and 320 miles north of San Francisco. Covering some 6,313 square miles, it is the fifth largest county by area in California. Approximately 61 percent of the total land is in public ownership, much of that being located in five national forests, while less than 40 percent of the county's total land is taxable.

The population of 45,558 in 1995 is growing at an average annual rate of 1.3 percent, well below the statewide growth rate. However, employment is forecast to grow at 2.3 percent, primarily in the retail trade, service, and construction industries. Major employment in the county is found in lumber and wood products, government and education, retail trade, and the service industries. Mining, which at one time had been a booming industry in Siskiyou County, is limited primarily to the production of aggregates for highway construction. There is currently a fair amount of geothermal exploration under way in the eastern part of the county. However, no production wells are currently in use.

Siskiyou County is probably most noted for its natural recreational resources including national forests, lakes, rivers, and mountains, including Mt. Shasta.

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's Assessment Standards Division (ASD) on a five-year cycle and described as follows:

(1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

(2) These assessments are stratified into three value strata, identified, and placed into one of five assessment categories, as follows:

   a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous ASD assessment sampling.

   b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling.

   c. New construction -- those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling.

   d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.

e. Unsecured properties -- those properties on the unsecured roll.

(3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

(4) The field investigation objectives are somewhat different in each category, for example:

a. Base year properties -- for those properties not reappraised since the previous ASD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?

e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

(5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

(6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the Assessment Standards Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

Carl A. Bontrager, Assessor
COUNTY OF SISKIYOU

Court House, 311 4th Street
Yreka, California 96097
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March 10, 1997

RECEIVED
MAR 11 1997
Policy, Planning & Standards Div.
State Board of Equalization

Mr. Richard C. Johnson, Chief
California State Board of Equalization
Assessment Standards Division
Department of Property Taxes, MIC: 64
P. O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Johnson:

Pursuant to Section 15645 of the California Government Code, I am enclosing our response to the recommendations and suggestions contained in the State Board of Equalization's Assessment Practices Survey of the Siskiyou County Assessor's Office.

I would like to express our sincere appreciation for the professional, positive, and cooperative manner in which both the sample and survey teams conducted their analysis.

I would especially like to cite the positive observations and the volunteered assistance rendered by your staff.. I would particularly like to thank Michael Shannon, Robert Athey, and J. Thomas McClaskey for their views and suggestions which made this survey a very constructive experience.

Sincerely,

Carl A. Bontrager

Carl A. Bontrager
Siskiyou County Assessor

CAB:jw

Enclosure

SISKIYOU COUNTY ASSESSOR'S OFFICE RESPONSE TO STATE BOARD OF EQUALIZATION'S ASSESSMENT PRACTICES SURVEY

RECOMMENDATIONS

Recommendation #1

Request a full-time Assessment Technician position to fill the gap between current and anticipated workload.

We agree and wish to thank you for recognizing this problem.

Recommendation #2

Revise the low-valued property exemption and apply it uniformly.

We agree and are now in the process of addressing this situation.

Recommendation #3

Revise the CLCA procedures as follows:

(1) Revalue all CLCA properties each year.

We agree and will implement as soon as our data processing system capability permits.

(2) Revise the status of ponds and reservoirs on CLCA properties.

We disagree as we strongly believe the value of these contributories are reflected in the value of the income-producing land. We will, however, review this suggestion for possible implementation.

(3) Utilize a personal computer for assessing CLCA properties.

We agree and have attempted to do so for a number of years without success.

(4) Develop a formal written summary of CLCA practices and procedures.

We agree and will implement as soon as possible.

Recommendation #4

Classify and enroll manufactured homes except those placed on approved permanent foundations as personal property.

We agree with Board's position in writing this recommendation. However, we disagree with the very concept that manufactured homes are personal property. We offer the following to support our position:

1) Section 600.005 Classification (Property Tax Law Guide) states a mobilehome installed on an approved foundation is a structure and is no longer classified as a mobilehome. All other mobilehomes are real property or personal property depending upon whether they meet one or more portions of the three-fold **fixture** test: In my opinion, the mobilehome does meet the **"fixture"** test; especially applicable is test (#3.) "The article annexed is attached to realty by physical means or by its **own mass** thus manifesting an outward appearance that the article would remain with the real property for some indefinite period of time."

2) Section 18007 of the Mobilehomes Manufactured Housing Code states, "Manufactured home" for the purposes of this part, means a **structure**, transportable in one or more sections . . . and which is built on a permanent chassis and designed to be used as a dwelling when connected to the required utilities . . ." Section 18008 of the same code states "mobilehome" for the purposes of this part, means a **structure** transportable in one or more sections, designed and equipped to contain not more than two dwelling units to be used **with or without a foundation system.**

3) There are a number of other points I could raise which lends credence to my position, but for the sake of brevity, I will withhold them at this time. My primary concern is valuing a manufactured home independently of the land upon which it is located. This method is contrary to the appraisal unit concept which requires the appraisal of the unit that is commonly bought and sold upon the open market (land and manufactured home). This position is also supported in Section (b), Paragraph 3, of Property Tax Rule 324.

In the near future, I intend to seek legal advice concerning a possible challenge to the personal property classification of manufactured homes before we adopt this recommendation in our procedures.

Recommendation #5

When valuing machinery and equipment, use replacement cost factors that relate to the specific property being appraised.

We agree that this is technically correct and will implement when staffing permits.

Recommendation #6

Ensure that property statements are closely screened for property signatures. Reject those that do not meet statutory requirements.

We will make every reasonable effort to comply with recommendation.

Recommendation #7

Revise boat appraisal procedures; appraise all boats at market value.

Currently being done.

SUGGESTIONS

Suggestion #1

Implement a taxpayer self-reporting program for the assessment of low-valued new construction.

Suggestion #2

Maintain a "tickler" file listing the termination/renewal dates of all possessory interest contracts.

Suggestion #3

Indicate which value guide or source was used to value manufactured homes and accessories.

> We concur with all three suggestions and our goal is to have them fully operational as soon as staffing and implementation time permits.